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SECTORAL POLICY QUESTIONS: INDUSTRIAL DEVELOPMENT COOPERATION

Report of the Secretary-General

CONTENTS

	Paragraphs	Page
INTRODUCTION	1 - 3	4
Part one. Industrial development: trends, significance and challenges	4 - 31	5
I. INDUSTRIAL PERFORMANCE OF THE DEVELOPING COUNTRIES	4 - 16	5
A. General trends	4 - 7	5
B. Regional trends	8 - 16	7
II. CONTINUED IMPORTANCE OF INDUSTRY IN ECONOMIC AND SOCIAL DEVELOPMENT	17 - 24	9
III. AGENDA FOR INTERNATIONAL INDUSTRIAL DEVELOPMENT COOPERATION	25 - 31	11
A. Employment creation and eradication of poverty	26 - 27	11
B. Environmental sustainability	28	12
C. Private-sector development	29	12

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CONTENTS (continued)

		Paragraphs	Page
	D. Industrial competitiveness to redress international development disparities	30 - 31	12
Part two.	Role of UNIDO in international industrial development cooperation	32 - 80	13
IV.	PROGRAMMATIC AND MANAGERIAL REFORMS AT UNIDO	32 - 40	13
	A. Focusing of UNIDO services	34 - 35	14
	B. Mechanisms for the delivery of UNIDO services	36 - 37	14
	C. Management reform	38 - 40	15
V.	UNIDO SERVICES	41 - 48	16
	A. Strategies, policies and institution-building for global economic integration	42	16
	B. Environment and energy	43	16
	C. Small and medium enterprises	44	17
	D. Innovation, productivity and quality for international competitiveness	45	17
	E. Industrial information, investment and technology promotion	46	17
	F. Rural industrial development	47	18
	G. Africa and the least developed countries: linking industry with agriculture	48	18
VI.	CONTRIBUTION TO MAJOR UNITED NATIONS CONFERENCES	49 - 67	18
	A. United Nations Conference on Environment and Development	49 - 56	18
	B. World Summit for Social Development	57 - 59	20
	C. Fourth World Conference on Women	60 - 62	21
	D. Second United Nations Conference on Human Settlements	63 - 65	21
	E. Follow-up to global United Nations conferences: UNIDO programmes	66 - 67	22

CONTENTS (continued)

		Paragraphs	Page
VII.	COORDINATING ROLE OF UNIDO IN THE UNITED NATIONS SYSTEM	68 - 80	25
Table.	Link between UNIDO programmes and follow-up to global United Nations conferences		24

Figures

I.	Manufacturing value added in developing countries: geographical distribution, 1994	6
II.	Foreign direct investment in developing countries, 1993	6
III.	UNIDO administrative and operational support costs, 1994-1997	15

INTRODUCTION

1. The General Assembly, in its resolution 49/108 on industrial development cooperation, inter alia, stressed the importance of industrialization to the economic and social development of developing countries; emphasized the importance of industrial development cooperation; reaffirmed the central coordinating role played by the United Nations Industrial Development Organization (UNIDO) in the United Nations system in the field of industrial development in the developing countries; and welcomed the process of reform and restructuring of UNIDO. In addition, the Assembly invited the organizations and bodies of the United Nations system, in particular UNIDO, to contribute through their programmes and activities to the achievement of the goals and programmes adopted by the United Nations Conference on Environment and Development (UNCED) and by the International Conference on Population and Development, and also invited them to contribute to the preparation of the World Summit for Social Development, the Fourth World Conference on Women and the Second United Nations Conference on Human Settlements (Habitat II). The Assembly also requested the Secretary-General to report to it at its fifty-first session on the implementation of the resolution; the present report has been prepared in response to that request.

2. The report is divided into two parts. Part one, entitled "Industrial development: trends, significance and challenges", summarizes major trends in industrial development in the developing countries (sect. I); reviews why industry continues to be a key instrument in economic and social development, and why industrial development cooperation is needed to support industrial development in the developing countries (sect. II); and assesses the major issues that today constitute the agenda for industrial development cooperation (sect. III). Part two, entitled "Role of UNIDO in international industrial development cooperation", provides a synopsis of programmatic and managerial reforms undertaken by UNIDO (sect. IV); reviews UNIDO's seven thematic priorities and the activities undertaken for each priority (sect. V); reports on the UNIDO contribution to major United Nations conferences (sect. VI); and describes the coordinating role of UNIDO in the United Nations system (sect. VII).

3. A central theme of the present report is that international industrial cooperation remains an essential dimension of the overall development process. Industrial development is a means for achieving overall economic and social development, not an end in its own right. With the achievements in industrialization in past decades and the growth of trade and international investment flows, some parts of the developing world have made significant progress. However, major challenges remain for the greater number of developing countries. Those challenges are increasingly urgent, as competitive pressures and the requirements of technological change threaten to widen the gap between advantaged and disadvantaged nations. Although the process of industrialization is increasingly market driven and markets require strengthening in many instances, Governments continue to have a decisive role in furthering sustainable industrial development. Efforts are required to overcome market deficiencies; create and upgrade institutions; augment the supply of skilled labour; and support policy-making to promote internationally competitive industries, technological development and necessary infrastructure.

Part one. Industrial development: trends, significance and challenges

I. INDUSTRIAL PERFORMANCE OF THE DEVELOPING COUNTRIES

A. General trends

4. Industry remains a vital instrument for economic and social progress, facilitating employment generation, contributing fundamentally to productivity growth and technological change, enabling the creation of dynamic linkages with the agricultural and service sectors, and contributing to foreign-exchange earnings. Despite many setbacks, the developing countries as a group have increased their share in global industrial production and trade. The developing-country share of world manufacturing value added (MVA) rose from under 12 per cent in 1960 to 17 per cent in 1980 and 19.7 per cent in 1995, and is projected to rise to 29 per cent in the year 2005. Similarly, the developing-country share of world manufacturing exports rose from 13 per cent in 1960 to 22.6 per cent in 1995 and is projected to reach 26.5 per cent by 1999.

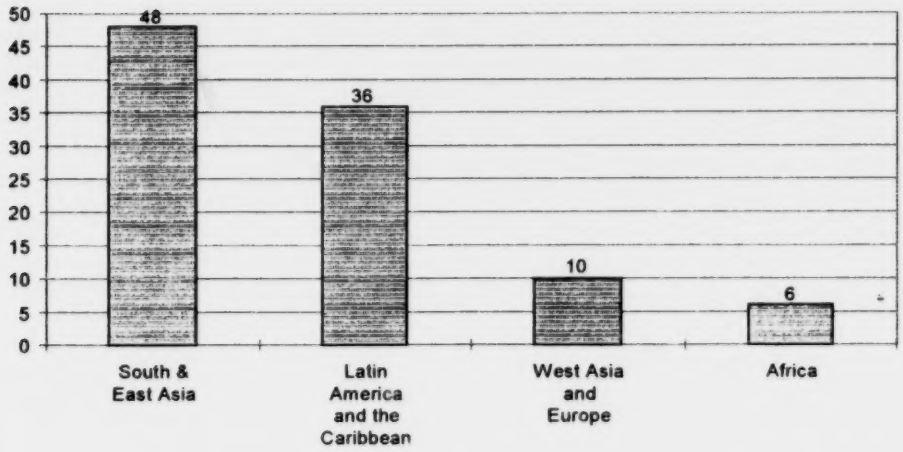
5. Such data emphasizes the significant progress made by the developing countries towards industrialization. However, the aggregate figures hide enormous disparities. For example, excluding South Africa, Africa's share of global MVA stood at a mere 0.65 per cent in 1960. Twenty years later, in 1980, that share had only risen to 0.85 per cent, an increase of one fifth of one percentage point. The latest data, from 1995, indicate that Africa's share of global MVA has actually fallen to 0.74 per cent. Almost half of the MVA created in the developing world is attributable to South and East Asia. In stark contrast, Africa accounts for a mere 6 per cent of developing-country MVA. The geographical distribution of developing-country MVA, shown in figure I, is illustrative of those disparities.

6. MVA growth in Africa has also failed to keep pace with population expansion since the 1960s. Much of sub-Saharan Africa suffers from severe shortages of technical, managerial and entrepreneurial skills, acute infrastructure bottlenecks, weak institutional capabilities, severe limitations in the capacity to import, and continued dependence on exports of a few primary commodities. A similar picture can be drawn for parts of Asia and some parts of Latin America, particularly Central America, while countries with economies in transition face different but nevertheless acute problems. By contrast, in much of East and South-East Asia, skilled manpower is available and necessary institutions have been developed. Basic infrastructure is also in place, the macroeconomic environment is supportive, manufactures constitute a large fraction of total exports and import capacity is not a serious problem.

7. The widening divergence in industrial performance between different developing regions is also reflected in the high degree of concentration of foreign direct investment (FDI). In 1993, a mere 10 countries received almost 80 per cent of FDI in the developing world (see figure II).

Figure I. Manufacturing value added in developing countries: geographical distribution, 1994

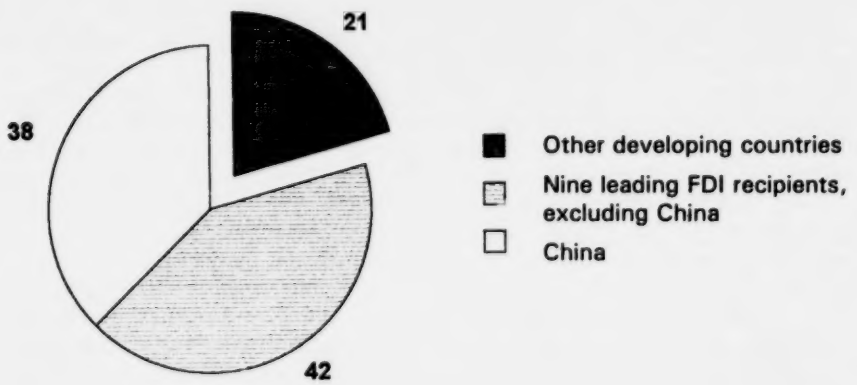
(Percentage share)



Source: UNIDO database.

Figure II. Foreign direct investment in developing countries, 1993

(Percentage share)



Source: UNCTAD World Investment Report.

B. Regional trends

1. Africa

8. In sub-Saharan Africa, the growth of MVA in 1995 rose to 1.6 per cent, compared with 0.4 per cent in 1994. However, in recent years only a few countries have been able to sustain growth at relatively robust rates and attract FDI. Those same countries have made headway in fostering macroeconomic stability through broad economic reform. MVA growth in the larger economies has tended to remain weak and in some cases negative. Indeed, the region has failed to make significant progress even in many labour-intensive industries. For example, very little clothing and footwear is exported from Africa. And Africa is the one region that, according to most assessments of the Uruguay Round of multilateral trade negotiations, will benefit little from global trade liberalization. In 1993, less than 0.1 per cent of Organisation for Economic Cooperation and Development (OECD) imports of manufactures came from Africa. Important infrastructural deficiencies in transport, power and communications persist throughout much of the region. Progress in penetrating OECD markets and in attracting FDI has been evident in a number of North African economies undertaking economic reforms.

2. Latin America and the Caribbean

9. In Latin America and the Caribbean, MVA shrunk in 1995 by 0.8 per cent, compared with a modest growth of 6.0 per cent in 1994. Compared with other developing regions, Latin America and the Caribbean enjoyed favourable initial conditions for participation in the international economy. Average per capita income in 1980 was the highest in the developing world, and manufacturing accounted for nearly one quarter of gross domestic product (GDP). The region had been a preferred host for FDI: its 1980 share in total FDI flows to developing countries was close to 70 per cent. However, its share in developing-country MVA fell from 37 to 24 per cent between 1985 and 1995, although its export performance was less discouraging, with only a marginal decrease in the share of manufactured exports to industrialized countries registered during 1985-1995. And market shares in apparel, transport equipment, electrical machinery and professional and scientific goods have all improved, largely due to offshore processing for the United States market. Perhaps the outstanding regional development today is the move towards economic integration, the incentives for which have increased after the 1992 North American Free Trade Agreement.

3. Asia and the Pacific

10. In Western Asia, MVA recovered from 1994, growing rapidly in 1995 despite weaker oil prices. In South Asia, MVA growth remained strong, with an average rate in excess of 7.5 per cent in 1995, propelled by India and Pakistan, which together account for more than 90 per cent of the subregion's MVA. A challenge for the subregion is to combat rising inflationary pressures, infrastructure bottlenecks and current account deficits, while addressing the issues associated with privatization. As competition increases from other low-income countries, South Asia must be prepared to move to less labour-intensive forms of

manufacturing. In recent years, the subregion has increased its share of manufactured exports to industrialized countries, largely in the apparel sector. South Asia has also enhanced its attractiveness for FDI. The successful continuation and management of economic reforms is of great importance. In many countries of the region, much industry, particularly the small and medium-sized subsector, operates with low levels of technical skills.

11. A driving force of world MVA growth in 1995 continued to come from East and South-East Asia, including China, which accounts for slightly more than half the MVA of developing countries; the subregion registered double-digit MVA growth in 1995, as well as drawing major inflows of FDI. Inflationary pressure and current account deficits - symptoms of rapid growth - were high on the policy agendas in a number of countries, with China, for example, seeking to curb domestic demand.

12. The Asian newly industrializing countries (NICs) contribute about 60 per cent of the total manufactured exports of developing countries to industrialized countries. However, the performance of some Asian NICs was mixed in 1995 compared with 1994. MVA growth remained robust in the Republic of Korea and Taiwan. The so-called near-NICs, such as Indonesia, Malaysia and Thailand, have also been facing overheating problems and persistent current account deficits. The market position of Asian NICs has begun to be challenged in some areas by lower income competitors, forcing the Asian NICs to shift to more sophisticated manufacturing activities and relocate labour-intensive industries to Association of South-East Asian Nations (ASEAN) countries and recently also to China and Viet Nam. Japanese investment in such countries as Indonesia and Malaysia, and more recently China and India, has also been growing.

13. Even by Asian standards, the pace of economic change in China has been outstanding. The country has reported average GDP growth of about 9 per cent per annum since economic reforms started in the late 1970s and early 1980s. China accounts for a rapidly rising share in world manufacturing and is experiencing massive FDI inflows. Impressive export performance has been supported by industrial restructuring and diversification. Nevertheless, problems still exist, such as the disparities between the inner provinces and booming coastal regions.

4. Economies in transition

14. The recent economic performance of the economies in transition has depended significantly on the progress of their reform programmes. Early reformers, such as the Czech Republic, Poland and Hungary, have recorded impressive MVA growth. Successful macroeconomic stabilization and structural adjustment in those countries has also restored confidence among foreign investors, facilitating inflows of foreign capital, and proximity to the European Community has assisted their exports. However, the performance of countries that are still facing structural adjustment problems remained discouraging. Overall, the economies in transition managed to reduce negative MVA growth from -8.8 per cent in 1994 to -4.1 per cent in 1995. A stable framework for investment in internationally competitive industries is essential, which requires action on various fronts from macroeconomic management to institution-building.

15. Some Central and Eastern European countries have succeeded in redirecting exports to OECD countries. In 1987, OECD absorbed less than one quarter of total exports of former Czechoslovakia and about two fifths of Polish and Hungarian exports. Five years later, OECD accounted for more than 80 per cent of Czech and Polish exports, and slightly less than 70 per cent of Hungarian exports. The progress made was helped by better market access offered by OECD Governments, witness the trade concessions granted by the European Community in the so-called Europe agreements with Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia.

16. FDI flows to all transition economies for which the relevant information is available increased from $600 million in 1991 to $4 to 5 billion per annum in 1992-1994. However, those flows have been heavily skewed towards a rather small subset of recipients.

II. CONTINUED IMPORTANCE OF INDUSTRY IN ECONOMIC AND SOCIAL DEVELOPMENT

17. The overall picture from recent trends in the different developing regions reveals significant economic disparities, with some regions growing rapidly and experiencing important positive structural changes, while others, most notably sub-Saharan Africa, experience general stagnation and marked structural deficiencies. The structural transformation occurring in the most rapidly growing countries reflects increased industrial sophistication and competitiveness. Indications of such structural changes include a growing share of manufactures in total exports; growing shares of manufactures embodying higher levels of value added; growth in service-sector activities that serve manufacturing; and increased demand for skilled employees in manufacturing. An example of such a transformation in Asia is Malaysia. Long known mainly as a producer of primary products, Malaysia has achieved significant levels of industrial development in little more than two decades. In 1994, the manufacturing share in its GDP was more than twice that of agriculture, and manufactures - of increasing sophistication - currently constitute the major part of its export earnings. Indeed, Malaysian authorities now encourage some low-productivity industries to relocate outside the country.

18. Virtually all developing countries aspire to higher levels of industrialization as a means of economic development. The main reasons why industry remains vital to economic and social development are highlighted below.

19. Productivity and technological change: the object of industrialization is to raise the productivity of human labour, which sets the foundation for the achievement of long-term and sustainable increases in standards of living and thus for advances in the fight against poverty.

20. Manufacturing: this is the most dynamic sector of the economy, characterized by rapid technological advances, potential for scale economies, and scope for factor substitution and productivity gains. Demand for manufactures is almost infinite, rising directly with increases in incomes and also with increased demand for services since manufactures are integral components of many services. Moreover, manufacturing tends to foster

technological change across the economy as a whole. By comparison, many service activities are constrained by rigid factor proportions (that is, they cannot be mechanized), limited scale economies and relatively inefficient production processes. To a large degree, economic development initially entails the shifting of resources from lower-productivity uses in agriculture to higher-productivity uses in manufacturing.

21. Sectoral linkages: the multiple direct and indirect linkages between industry and other sectors of the economy are central to economic progress. For example:

(a) Linkages with agriculture: industrial inputs to agriculture facilitate the productivity growth needed to increase marketable surpluses of food and cash crops for the domestic market and for export. Above a subsistence level of output, the acquisition of manufactured consumer goods provides the basic incentive for agricultural production. Industry affords a key source of demand for agricultural raw materials and food products, the main wage good of industrial workers;

(b) Linkages with services: productivity growth in services stems from two principal sources: the reorganization of scale and the application of new technologies produced by manufacturing, such as microelectronics. The rise in incomes from industrial development also supports a broad array of consumer and social services. At higher levels of income, many services exist to support the advancement of manufacturing, such as engineering, marketing, specialized financial services and accounting, a fact that is not captured in data on the sectoral composition of national income.

22. Employment: the contribution of manufacturing to employment generation stems not only from its direct employment effects but more importantly from its indirect effects through its extensive linkages with the remaining sectors of the economy, including the service sector, and through income-induced demand for services as per capita income rises. As the industrial base broadens and becomes more integrated both vertically and horizontally, the employment impact of industrial activities increases substantially. The creation of employment is a principal means of combating poverty and social distress. As empirical analysis undertaken by UNIDO has shown, at a relatively advanced stage of industrialization rising incomes create demand for a whole range of consumer and social services, such as recreation, health care, and other specialized and personal services.

23. External balance and structural change: the so-called deindustrialization thesis may underlie some of the mistaken scepticism regarding the future importance of industry in development. Clearly, at higher levels of income the share of services in GDP tends to rise, for various reasons. However, relatively few services can be traded, while the same growth in incomes will continue to increase imports. Therefore, manufacturing productivity has to rise to compensate for the inability of services to provide the export earnings with which to finance increased imports. In other words, without increases in the productivity of manufacturing, growth will be held back by external payments constraints, an observation that applies primarily to more advanced economies. However, even at lower levels of income - when the transition from agriculture

to industry is the predominant structural change - if the share of industry in national income is to rise, industry must sooner or later be capable of generating hard currency earnings or savings. Industry must attain international standards of productivity.

24. At the same time, it must to be emphasized that the growing reliance of developing countries on market mechanisms does not imply that international support is no longer required. It is generally acknowledged that in a number of areas, market failures remain. Specific areas of market failure include training; technology generation and use; and the environment. In those areas, institutional capacities need to be created, such as for environmental enforcement measures in the case of environment, industrial extension services in the case of technology and industry-wide training in the case of human resources development. External assistance is much needed, therefore, above all in those developing countries with incipient private sectors lacking an effective institutional framework.

III. AGENDA FOR INTERNATIONAL INDUSTRIAL DEVELOPMENT COOPERATION

25. The present section outlines the current agenda for industrial development cooperation by seeking to answer the following two questions: (a) what are the most acute challenges facing the developing countries at the end of the 1990s? and (b) how can industrial development cooperation assist in meeting those challenges?

A. Employment creation and eradication of poverty

26. While a process of private-sector-led development, deregulation of many economies and liberalization of trade and investment flows has been set in motion and has brought about significant increases in global production, we are also witnessing increasing international development disparities, growing unemployment and widespread poverty. A large number of developing countries have not so far been able to reap the benefits of integration into the global economy, in particular in Africa. For such countries, industrial development is still far from being a self-sustained and sustainable process. International support continues to be critically required if the two essential ingredients of sustainable development are to be realized, namely social sustainability - through employment creation and poverty alleviation - and environmental sustainability.

27. The only viable long-term solution to the twin issues of unemployment and poverty lies in the building up of competitive productive capacities that can generate production and incomes among the population at large, a process in which industry is not the sole contributor. However, all historical evidence suggest that industry plays a pivotal role in advancing technology, increasing productivity, nurturing entrepreneurship and generating a broad range of critical skills, all of which converge to increase a country's standard of living. In their aspirations to raise standards of living, the developing countries are following the example of the already industrialized countries, and by seeking to build up efficient industrial capacities have chosen the only

viable route to achieve lasting economic growth and escape the vicious circle of poverty.

B. Environmental sustainability

28. At a time when the actual and potential environmental damage of many industrial technologies has become painfully obvious, developing countries need to reconcile the imperatives of competitiveness on the one hand and environmental sustainability on the other. Existing pollution needs to be abated, future pollution prevented and a number of global environmental threats, such as global warming and the destruction of the ozone layer, need to be addressed in a cost-effective manner. In particular, small and medium industries often lack the information, expertise and above all resources to implement badly needed technological and managerial improvements.

C. Private-sector development

29. It is patently clear - and accepted throughout the developing world - that functioning markets and private initiative are among the most efficient and powerful mechanisms to generate wealth and thus permit increased standards of living. Unlike in the past, industrial development cooperation today generally involves working with private-sector counterparts, such as federations of industry and chambers of commerce and industry, to serve the needs of private industries in facing the challenge of competitiveness. Support is particularly crucial for those countries that have launched a process of transformation to market economies. Strategic policy advice, such as on industrial aspects of privatization, is required in a great number of countries in transition, not only in Central and Eastern Europe but also in other developing regions. Entrepreneurship development for longer-term, industrial and technological development is a key factor in private-sector-led market-oriented economies.

D. Industrial competitiveness to redress international development disparities

30. It is an essential function of international support to address the major imbalances created in the context of globalized production, trade and investment. Support is required in particular by the less advanced among the developing countries in promoting industrial growth, building up competitive industrial supply capacities, strengthening investment promotion agencies and establishing partnerships with overseas investors and technology suppliers. Support is also required in fostering technological development and innovation, and facilitating industrial restructuring. Increased investment is a further imperative, in human capital, research and development, and industrial plants. It is important to note, however, that developing countries at different levels of industrial development have differing support requirements. Middle-income developing nations, for example, frequently need assistance in policy formulation and institution-building (e.g., in the area of quality certification and standardization), especially given the demands placed on their industrial sectors by the process of globalized industrial production and the exigencies of

expanded and liberalized trade. Developing countries can increase their competitive standing provided the right sociopolitical, economic and technological conditions and infrastructure exist; it is a key objective of international support to facilitate the development of such conditions and infrastructure. In a related manner, international support is also required, through skills development and institution-building, to facilitate the absorption of development finance in the industrial sector of least developed countries.

31. Indeed, in many ways, globalization and liberalization reinforce the relevance of international support. For instance, improved industrial supply capacities are often needed in order that policies may have their proper effect. For example:

(a) In trade, despite adopting liberalized policies, some countries are just too poor and too lacking in the necessary supply capacities to reap potential benefits;

(b) In investment, without at least a nucleus of competitive industrial firms to supply inputs and form partnerships, foreign direct investment, if it is attracted, will exist as an enclave;

(c) In agriculture in very low income countries, liberalization of agricultural price policy may have little effect on agricultural output when the rural area is characterized by shortages of manufactured consumer and producer goods.

Part two. Role of UNIDO in international industrial development cooperation

IV. PROGRAMMATIC AND MANAGERIAL REFORMS AT UNIDO

32. Since the adoption by the General Assembly of its resolution 49/108, UNIDO has advanced a major process of programmatic and managerial reform, responding to changed industrial realities and support requirements both by a substantive reformulation of its priorities and focus and by internal reforms in management and organizational structure with a view to increasing effectiveness, efficiency and impact. UNIDO reform has followed a logical sequence from the redefinition of key objectives and programmes, through the redesign of mechanisms to deliver quality services, to savings in staff and non-staff resources. In the process, UNIDO has been at the forefront of reform efforts in the United Nations system.

33. The strategic reform of UNIDO, endorsed by member States at the General Conference of UNIDO in December 1995, has emphasized UNIDO's dual role as a worldwide forum for supporting and promoting industrial development, and a provider of specialized integrated technical cooperation services.

A. Focusing of UNIDO services

34. A central feature of the UNIDO reform process has been the prioritization of services based on analyses of current and future priority areas of demand from developing countries and countries with economies in transition. Accordingly, the UNIDO work programme is now focused on three dimensions:

(a) Geographical: low-income developing countries, in particular in Africa;

(b) Sectoral: 32 of a total of 77 industrial subsectors have been accorded high priority, with emphasis on subsectors related to agriculture and basic industrial needs;

(c) Thematic: seven cross-organizational thematic priorities, which are described in detail in section V below.

35. UNIDO aims to devote a major part of its services to the development and implementation of large integrated programmes in support of its seven thematic priorities, which would enhance the impact, relevance and sustainability of UNIDO services. Stand-alone activities not related to larger integrated programmes, such as certain training programmes and studies and expert group meetings, have largely been discontinued, and activities in a number of industrial subsectors have been de-emphasized. The private sector, which in 1992 represented 25 per cent of UNIDO's counterparts in technical cooperation, today represents more than 50 per cent; at the same time, 80 per cent of the project beneficiaries are in the private sector.

B. Mechanisms for the delivery of UNIDO services

36. UNIDO has undertaken a comprehensive review of approaches to developing its services. Making use of the tools and expertise of the whole organization and the best known practices of other institutions, UNIDO has selected an approach that consists of proactive programming based on its seven thematic priorities, leading to programmes at the country level that are more focused. While fewer in number, those programmes are expected to be larger, of higher quality and of higher impact, as well as to yield a decrease in the unit costs of design and implementation, which will allow UNIDO to concentrate resources and experience in priority areas, in spite of resource constraints. Ad hoc requests for UNIDO services are today carefully screened to make sure that they fall within its core mandate and priorities, that the necessary staff expertise is available and that there are good prospects for funding.

37. A re-engineering of project implementation that concentrates implementation responsibility on multidisciplinary teams, simplifies processes, delegates authority to the field, where appropriate, and improves computer systems support, is also expected to result in lower costs as well as more responsive, faster and better delivery. The objective is to reduce administrative support costs from approximately 30 per cent of project volume - a figure comparable to that of other organizations - to 10 to 15 per cent in 1998. UNIDO has also actively developed innovative sources of funds for financing its services,

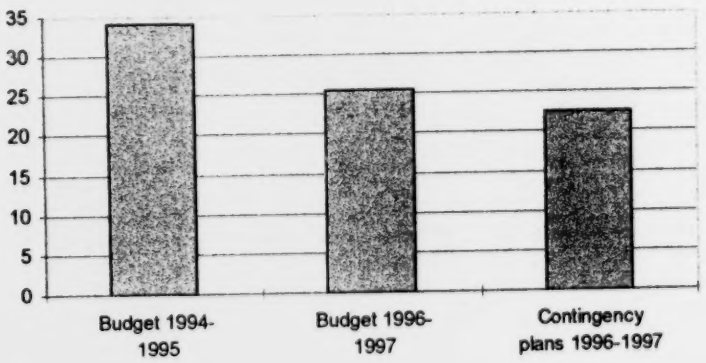
becoming involved to an increasing extent in the implementation of projects under the Montreal Protocol, the Global Environment Facility, and the Common Fund for Commodities, as well as work financed, for example, by the World Bank and the United Nations Environment Programme (UNEP).

C. Management reform

38. The reform process has also brought about important internal improvements in the UNIDO structure, inter alia, by reducing the number of divisions from 8 to 6, and in its cost efficiency. Cost reductions have in particular been achieved in the areas of administration and operational support; as figure III indicates, those costs, which include general operating costs, supplies and material, acquisition of equipment, electronic data-processing and some joint service costs with other United Nations agencies, have decreased significantly over the reform period.

Figure III. UNIDO administrative and operational support costs, 1994-1997

(Millions of United States dollars)



39. The number of UNIDO staff fell from 1,174 in January 1994 to 812 in June 1996. The ratio of General Service to Professional staff has decreased from 1.4 in 1992-1993 to 1.2 today. Administrative processes have been greatly streamlined. New management principles and procedures have been introduced to accelerate decision-making and increase empowerment, accountability, transparency and effectiveness. Changes of a much broader cultural type have also been introduced in the areas of staff performance evaluation, staff development and training.

40. Such reforms have enabled UNIDO to maintain its key services despite the announced withdrawal of the United States of America from the organization and non-payment of its assessed contributions for the last two years. In spite of an overall 25 per cent budgetary shortfall, there has been no reduction in the delivery capacity of key substantive services. Indeed, despite those stringent circumstances, UNIDO has been able to maintain and even increase its delivery of technical cooperation by 7 per cent to reach US$ 108 million in 1995.

V. UNIDO SERVICES

41. Through a process of translating key development objectives into priority programmes and activities, UNIDO has defined seven thematic priorities. As described below, the implementation of programmes under each priority requires multidisciplinary inputs from across the organization, combining subsectoral with functional expertise. Activities to promote human resource development, the integration of women in industrial development and economic cooperation among developing countries are common to all seven thematic priorities.

A. Strategies, policies and institution-building for global economic integration

42. For over a decade, the world economy has undergone a process of globalization. The liberalization of national and international trading environments, the growth in FDI, simultaneous and rapid technological change and the emergence of new forms of inter-firm cooperation have all contributed to an increasingly integrated international system of production. That process of globalization has created enormous challenges for much of the developing world. It is already clear that the impact of globalization varies greatly between regions and countries. It is perhaps fair to say that the international distribution of poverty reflects to a large degree the ability to actively participate in the globalization process. In the aftermath of the Uruguay Round agreements and in the context of various subregional economic integration schemes, developing countries increasingly require the policy advisory and capacity-building services of UNIDO in support of their endeavours to create an enabling environment for sustainable industrial growth and international competitiveness.

B. Environment and energy

43. UNIDO places priority on addressing environmental issues stemming from industrial development, with particular emphasis on preventive rather than corrective action. The main UNIDO services in that field encompass capacity-building in support of national strategies for environmentally sustainable industrial development; implementation of international agreements, conventions and protocols for the protection of the environment, especially with regard to the Montreal Protocol; the establishment, jointly with UNEP, of national cleaner production centres; the promotion and transfer of clean technologies in various industrial subsectors; and enhancing the efficiency of energy use in industrial processes.

C. Small and medium enterprises

44. Recognizing the vital role of small and medium enterprises (SME) as agents of industrial development, UNIDO concentrates on the promotion of SMEs, which constitute the majority of industrial firms in most developing countries, as the main target group for its services. That entails the provision of policy advice and institutional support for promoting SMEs in an overall framework of private-sector development and increased market orientation, and also implies a strong emphasis on SMEs in the UNIDO investment promotion programme. Networking of SMEs, both with larger enterprises and among themselves, is stimulated through national and regional subcontracting schemes, as well as through supporting the self-organization of SMEs in sectoral clusters.

D. Innovation, productivity and quality for international competitiveness

45. The globalization of industrial production and trade places new competitive demands on developing country firms and institutions. Increasingly, the determinants of competitiveness include the ability to source, distribute and network internationally; the flexibility and speed of the entire design, production and commercialization processes; and the ability to attain high levels of product quality and to produce with an efficient use of inputs. Systems of support to industrial competitiveness adopted in most, if not all, developed countries also need to be implemented by developing countries. Such support covers services by institutions specialized in technology management, including technology transfer and research and development; human resource development; information and data systems; venture capital financing; metrology, standardization and testing; and management and engineering consulting. UNIDO is increasingly called upon to provide specialized services to industrial institutions working with the private sector on industry-specific research and development, continuous quality improvements, and the attainment of certification requirements for international standards (such as ISO 9000). Support at the institutional level is complemented by assistance to groups of enterprises, mostly channelled through industrial associations, in rehabilitating and restructuring their operations.

E. Industrial information, investment and technology promotion

46. Developing country industries require access to up-to-date information in a variety of fields, including technologies, such as pollution abatement equipment, investment opportunities and market trends. In particular, firms are often in need of support when entering into technology transfer and joint venture arrangements. In its related investment and technology promotion programmes, UNIDO focuses on those developing countries - and disadvantaged regions within developing countries - that have not yet been the main beneficiaries of global investment and technology flows. To assist developing countries in that area, UNIDO offers support at the levels of policy, institutions and enterprises. UNIDO has at its disposal a number of highly specialized industrial information and statistics data banks with global coverage. The organization's investment promotion activities are based on a

network of investment promotion service offices, traditionally in developed but increasingly also in developing countries, that work directly with private industry. In addition, UNIDO provides specialized training and capacity-building in the preparation of bankable investment projects and feasibility studies.

F. Rural industrial development

47. For most developing countries, sustainable rural industrial development is a key to overall socio-economic development, because the majority of the population still lives in rural areas and is heavily dependent economically on agro-based productive activities. Developing rural industry can facilitate poverty alleviation and equitable development. UNIDO supports the realization of the industrial development potential of disadvantaged regions within developing countries and of rural areas, above all in terms of industrial processing of agricultural resources, such as food, leather, wood and natural fibres. Such support is complemented by support to buildings materials industries, in particular those relevant for low-cost housing in rural areas.

G. Africa and the least developed countries: linking industry with agriculture

48. Although UNIDO gives emphasis to the special development needs of Africa and the least developed countries under each of the six priorities described above, its seventh thematic priority adds a particular emphasis on African and least developed countries. Given the dominance of agriculture in the economies of those countries and the multiple linkages between agriculture and industry, this priority is intended to support the build-up of sustainable productive capacities for African industrial recovery. UNIDO here addresses two key roles of industry: (a) in processing agricultural produce and (b) in providing inputs, ranging from agricultural equipment and implements to fertilizers and pesticides, to increase agricultural productivity.

VI. CONTRIBUTION TO MAJOR UNITED NATIONS CONFERENCES

A. United Nations Conference on Environment and Development

49. With the convening in 1992 of UNCED and the adoption of Agenda 21 1/ and related conventions, the world community adopted a comprehensive international policy statement on the need to attain sustainable patterns of development. Agenda 21 makes clear that industrialization is an essential precondition for attaining sustainable development. Agenda 21 has profound implications for industrialization and industrial policy in developing countries.

50. During the 1994-1995 biennium, UNIDO was engaged in the review process for the implementation of Agenda 21 and participated in the preparations for and deliberations of the second and third sessions of the Commission on Sustainable Development, as well as in United Nations system-wide coordinative mechanisms supporting the Commission. Participation in the review process for Agenda 21

enabled UNIDO to define its role in relation to specific aspects of the implementation of Agenda 21, and to establish a basis for joint action with other agencies in initiatives in which industry-related issues played a major role in realizing the objectives of Agenda 21.

51. During 1995, UNIDO concentrated on two issues. The first was chapter 16 of Agenda 21, "Environmentally sound management of biotechnology". On that subject, UNIDO was designated the system-wide task manager, and prepared the report by the United Nations Secretary-General to the Commission at its third session (11-28 April 1995). The second area was chapter 34 of Agenda 21, "Transfer of environmentally sound technology, cooperation and capacity-building". For that chapter, in cooperation with the Department for Policy Coordination and Sustainable Development of the United Nations Secretariat and the United Nations Environment Programme (UNEP), UNIDO convened a round table on technology transfer, cooperation and capacity-building for sustainable development in Vienna from 6 to 8 February 1995. The proceedings of that round table provided a major input to the report by the Secretary-General on chapter 34 of Agenda 21, and to the formulation of a work programme adopted by the Commission at its third session. Also in 1995, UNIDO organized a non-governmental organizations forum on cleaner industrial production.

52. During 1996, the organization has been working in three areas:

(a) Following up on the conclusions of the third session of the Commission on chapter 16 of Agenda 21 by convening a round table on the safe management of biotechnology. That round table involves international organizations, industry and non-governmental organizations in assessing the initiatives already taken, additional policy initiatives needed, gaps, capacity-building, and information support required to enable developing countries to manage applications of biotechnology in an environmentally sound manner;

(b) Following up on chapter 34 of Agenda 21 by developing inter-agency initiatives on capacity-building for the transfer of environmentally sound technologies. Such initiatives would utilize the UNIDO network of national cleaner production centres as the foundation for developing the capacities, in client countries, to absorb and disseminate information on environment and energy-related technologies, and to diversify into such areas as chemical safety and worker health;

(c) Preparing for the fourth session of the Commission through major contributions to its review of the issues arising from chapter 34, "Transfer of environmentally sound technologies, cooperation and capacity-building"; chapter 9, "Protection of the atmosphere"; the issue of trade environment and sustainable development under chapter 2, "International cooperation to accelerate sustainable development in developing countries and related domestic policies"; and chapter 3, "Combating poverty". UNIDO will also be involved in the work of the Intergovernmental Panel on Forests, established by the Commission at its third session.

53. At the national level, UNIDO supports the implementation of national sustainable development strategies in several ways. First, it helps countries to define operational initiatives to realize the industry-related components of

already-formulated national Agenda 21s. The most advanced case is China, where UNIDO worked with the Government in formulating 16 projects in support of the implementation of the national Agenda 21. The projects developed are in the areas of capacity-building for sustainable development, cleaner production and environmental protection, clean energy and transportation, and pollution control.

54. A second approach to the implementation of Agenda 21s is the support UNIDO provides to the formulation and implementation of strategies for environmentally sustainable industrial development (ESID). UNIDO has been engaged in that effort in Madagascar, Morocco, Mozambique and Nepal. ESID strategies are designed to build capacities in recipient countries that would enable Governments, industry and sections of civil society to establish environmental goals and action plans, develop policy instruments to support the goals of those plans, and devise appropriate monitoring and enforcement measures to realize such goals. Through such approaches, UNIDO aims to support developing countries in integrating environmental considerations into industrial activity and policies.

55. UNIDO support to ESID strategies is not, however, limited to overall national plans. An innovative approach, called the Area-Wide Environmental Quality Management (AEQM) Plan, attempts to build capacities and define ESID strategies at the levels of regions, municipalities or districts. The objectives of the AEQM Plan are to analyse the specific impact of productive activity on all environmental systems in a given geographical space; to assess the assimilative capacity of those systems; and based on these two technical assessments, to establish a set of environmental priorities and action plans to improve environmental quality and reduce the adverse environmental impact on air, water and land resources. The resulting action plans specify the roles of municipal governments, industry and members of civil society in realizing the environment goals established. At present, UNIDO supports AEQM planning in Dhanbad, India and in the Bilecik region of Turkey. Depending on the results achieved in implementing the AEQM Plan, it could form a valuable operational component of national sustainable development strategies.

56. In all national-level actions, UNIDO follows two principles. First, there is a high degree of involvement of Governments, industry and non-governmental organizations to ensure national ownership of ESID strategies. Second, building of national capacities is a major component of such programmes.

B. World Summit for Social Development

57. UNIDO presented a position paper to the Summit entitled "Social progress through industrial development", arguing that lasting achievements in respect of poverty alleviation and eradication must build on long-term industrial development in most countries. Industrial development raises incomes, creates employment and provides the resources required for investment in social development. Since the industrial revolution, industrialization has set in train fundamental and continuing changes in the structure and nature of society, which offer many opportunities, particularly in employment creation and income generation, but also create difficult challenges.

58. UNIDO programmes with a direct bearing on the social dimension of development include support to small, medium and microenterprises; integration of women in industrial development; protection of human needs and well-being through the health-care industry and through reduction/mitigation of damage to the environment; regionally balanced industrial development; post-emergency industrial programmes; and agro-based and agro-related industries (see also table 1).

59. Following the Summit, UNIDO has actively participated in the meetings of the Inter-Agency Task Force on Employment and Sustainable Livelihoods. In the context of the work of the Task Force and in collaboration with the other agencies represented thereon, UNIDO will act as lead agency in a detailed assessment of the linkages between industry and social development in selected countries.

C. Fourth World Conference on Women

60. At the Fourth World Conference on Women, UNIDO focused on the linkages between industrial and social development as well as on the UNIDO role in increasing awareness of how women's participation in industry is affected by the globalization of production and trade and how the current situation can be improved. Empirical studies of women's participation in manufacturing were presented.

61. UNIDO also organized a panel at the Conference on Women and Industry, at which the theme of "Global industrial change, women and socio-economic progress" was debated. UNIDO was encouraged by various Governments and non-governmental organizations to pursue its work for the integration of women in industry by providing a necessary gender perspective on all relevant areas of industrial development, such as skills acquisition, the promotion of small and medium-scale firms, employment strategies and access to finance.

62. Based on the Platform for Action adopted by the Conference, 2/ and the recommendations specifically addressed to UNIDO during various of the panel meetings, UNIDO identified a three-point agenda for its follow-up: (a) promotion of gender-sensitive policies and strategies; (b) female entrepreneurship development and human resource development for industry; and (c) strengthening of investment and information centres so as to improve the services provided to female entrepreneurs. With financial support from Germany, preparatory work is already under way on a high-impact programme for entrepreneurship development among women, under which 10 national programmes will be elaborated, each aimed at releasing the principal technical, managerial, financial, institutional and policy constraints affecting the development of women's entrepreneurship.

D. Second United Nations Conference on Human Settlements

63. Throughout 1995, UNIDO undertook activities preparatory to the Conference, including the organization of an international colloquium on industrialization and urban development in Vienna in October 1995, and a meeting in Lisbon on

urban industrial development for African cities, hosted jointly by UNIDO and the Municipality of Lisbon. UNIDO also contributed industry-related inputs to the Berlin Declaration, which was formulated at a joint OECD/Government of Germany conference on sustainable urban development in March 1996. Following its Tokyo meeting in April 1996, the World Association of the Major Metropolises recommended that its members make use of international expertise, such as that of UNIDO, so as to support the needs of urban industry.

64. The Conference noted that cities are where most industrial facilities are sited, and where they have access to airports and seaports, telecommunications, large labour markets, business and professional services and other inputs. It was recognized that the globalization of world industry will take place, to a large degree, in cities. At the same time, urban areas constitute a growing focus of world poverty, environmental deterioration and social distress. Those problems are set to become more acute: it is estimated that after the year 2015, all net population growth worldwide will occur in cities. The critical need for industrial development to take forms appropriate to those challenges was asserted during the Conference in a Declaration by a mayors' round table.

65. At the Conference, UNIDO emphasized its role in supporting initiatives on industrial investment and employment creation; pollution prevention; product recycling; water treatment; improved energy efficiency; the supply of suitable building materials and low-cost housing; institution-building; training; support to small and medium-scale firms; and the provision of policy advice. UNIDO is active in a number of those areas, and plans to further develop its programmes in others, in line with specific issues raised in the Habitat Agenda. 3/ Innovative approaches are being developed to that end, such as a recent UNIDO initiative to create a regional development agency in Belarus, now being implemented with EC funding. In so doing, UNIDO will work with policy makers, city administrators and planners, industrialists, researchers and community groups to enhance the productivity of cities, increase the sustainability of urban development and improve the quality of urban life.

E. Follow-up to global United Nations conferences: UNIDO programmes

66. In response to the recommendations and action plans of major United Nations conferences, UNIDO has developed a number of integrated high-impact programmes that seek to harness the multidisciplinary expertise of UNIDO in addressing key industrial development issues. Such programmes are illustrative of the type of services that UNIDO will implement in 1996-1997: they integrate analysis and policy advice, technical cooperation and investment promotion, and thus put into effect, in the field of industrial development, the special expertise of UNIDO within the United Nations system. The high-impact programme entitled "Global network for the promotion of competitive and innovative small and medium industrial enterprises", will assist small and medium-scale firms, thereby directly supporting the employment-generation objectives of the World Summit for Social Development. Further work in line with the goals of the World Summit for Social Development will be performed under a high-impact programme entitled "The UNIDO quality programme: an application to the food processing sector of seven sub-Saharan African countries". And a high-impact programme entitled "A UNIDO

programme for women entrepreneurs" will contribute to the achievement of important objectives stipulated in Beijing during the Fourth World Conference on Women. One aspect of pollution abatement, a major theme of UNCED, will be addressed under a high-impact programme entitled "Introducing new technologies for abatement of global mercury pollution". Those high-impact programmes have met with considerable interest and tangible funding commitments from the international donor community.

67. Apart from such special initiatives, throughout its support programmes UNIDO has ensured that the recommendations and calls for action emanating from recent global United Nations conferences are actively followed up in an effective manner. Table 1 provides a summary account of how different UNIDO programmes address the action agendas of the various conferences.

Table 1. Link between UNIDO programmes and follow-up to global United Nations conferences

Agenda for international industrial development cooperation	UNIDO programmes	World Summit for Social Development	United Nations Conference on Environment and Development	Fourth World Conference on Women	Habitat II
Employment creation and eradication of poverty	Promotion of small and medium industries	X		X	X
	Rural industrial development	X		X	
	Human resources development	X	X	X	X
	Integration of women in industrial development	X		X	
	Support to agro-processing industries	X		X	
	Building materials and low-cost housing	X			X
Environmental sustainability	Environmentally sustainable industrial development strategies		X		
	National cleaner production centres		X		
	Implementation of international protocols, agreements and conventions		X		
	Conformance with industry-related environmental norms and standards		X		
	Subsectoral support in clean technologies		X		X
Private-sector development	Industrial strategy and policy advice	X			
	Networking of small and medium industries, and promotion of industrial subcontracting and partnerships	X			
	Strengthening support institutions and organizations, including industrial organizations	X			
	Advice on privatization strategies and support for their implementation	X			
Industrial competitiveness to redress international development disparities	Quality, standardization and metrology programme	X			
	Capacity-building in technology transfer and management	X	X		X
	Industrial restructuring and modernization of major subsectors of industry	X	X		X
	Investment promotion forums and follow-up services	X			X
	Global system of investment promotion service offices	X			X
	Promotion of international industrial subcontracting and partnerships	X			X
	Techmarts: enterprise-to-enterprise technology partnerships	X	X		X

VII. COORDINATING ROLE OF UNIDO IN THE UNITED NATIONS SYSTEM

68. As the central coordinating agency in the United Nations system for industrial development, UNIDO has sought to carefully delineate a clear division of labour between organizations within the United Nations system in matters relating to industrial development. Defining and reinforcing complementarities between agencies is necessary to ensure that the finite resources available for development cooperation are well employed.

69. Significant efforts in that direction have been made by UNIDO and the United Nations Conference on Trade and Development (UNCTAD). The Secretary-General of UNCTAD and the Director-General of UNIDO signed a joint communiqué in April 1996 outlining specific areas and measures of reinforced cooperation with a view to avoiding overlap and promoting synergies. A concrete example of UNCTAD-UNIDO cooperation is the establishment of the World Association of Investment Promotion Agencies in April 1995. Through UNCTAD, the Association will access a wealth of research experience and policy guidance, while UNIDO will contribute operational skills in investment project promotion and in strengthening investment institutions. The first annual meeting between the executive heads of UNIDO and UNCTAD took place in July 1996 at UNIDO headquarters in Vienna. The meeting agreed on a phased cooperation approach, with emphasis on pilot projects on investment promotion in selected African countries.

70. In October 1994, the Directors-General of UNIDO and the United Nations Educational, Scientific and Cultural Organization (UNESCO) signed a memorandum on areas of cooperation between the two agencies, as an example of which UNIDO has been collaborating with UNESCO on a university-industry partnership programme aimed at drawing academia and industry closer together. In July 1996, UNIDO co-organized with UNESCO the World Congress of Engineering Educators and Industry Leaders. Similarly, UNIDO and the Food and Agriculture Organization of the United Nations (FAO) initiated the formulation of a number of agro-industry projects related to food security in Africa, to be the subject of joint funds mobilization and implementation. UNIDO also signed an agreement with the United Nations International Drug Control Programme to expand their ongoing cooperation on crop diversification through agro-industry projects.

71. A memorandum of understanding between UNIDO and the Inter-American Development Bank was signed in February 1996, establishing a model agreement for services to be provided by UNIDO in respect of technical cooperation projects financed by Bank loans. The model agreement is the first of its kind between UNIDO and an international development financing institution, and similar agreements are expected to be concluded with other such institutions.

72. Cooperation between UNIDO and the World Bank has also gained considerable headway in a number of areas. In early 1996, UNIDO and the World Bank agreed to focus their cooperation in four specific areas:

(a) Privatization and industrial enterprise restructuring, including assessing the possibility of establishing a joint UNIDO/World Bank African network for privatization;

(b) Quality and standards in industry;

(c) Competitiveness and productivity of small and medium enterprises;

(d) Designing and implementation of build-operate-transfer schemes in developing countries.

73. At the operational level, UNIDO has been implementing technical cooperation components of projects funded by World Bank loans and credits. The projects cover a varied range of issues, including environmentally sustainable industrial development strategies (in Madagascar), human resource development (in the Philippines), privatization (in Sudan), industrial rehabilitation and maintenance (in Madagascar) and institutional capacity-building (in India).

74. In the areas of human resource development and capacity-building, the Economic Development Institute (EDI) of the World Bank and UNIDO have been collaborating in providing training to potential managers mainly from countries with economies in transition. The joint EDI/UNIDO programme has been very well received by participants and is expected to lead to an increasing number of joint activities.

75. UNIDO has also cooperated with the World Bank in preparing the Bank's industrial pollution prevention and abatement handbook, based on sector-specific technical background documents prepared by UNIDO.

76. UNIDO is involving other specialized agencies, as well as the regional commissions, in implementing regional support programmes emanating from declarations adopted at recent ministerial meetings, specifically the Regional Meeting of Ministers of Industry of Asia and the Pacific (held in October 1995 in New Delhi, India) and the Regional Meeting of Ministers of Industry from Central America and the Caribbean (held in October 1995 in Montevideo, Uruguay).

77. UNIDO has proposed and elaborated an alliance for Africa's industrialization, as an industry-specific complement to the United Nations System-wide Special Initiative on Africa. The alliance will be officially launched, following intense consultations with, inter alia, the Organization of African Unity, the Economic Commission for Africa and the Conference of African Ministers of Industry, in October 1996. Its central theme is linking industry and agriculture, and close cooperation is envisaged with a number of other United Nations agencies, most notably FAO.

78. UNIDO is also developing new concepts for supporting least developed countries and for strengthening South-South cooperation, both of which are pursued in the context of initiatives taken by the Group of 77 and the Group of 15 to strengthen investment and trade links in industry between developing countries at different levels of development.

79. At the project level, cooperation between UNIDO and other United Nations organizations has taken place, inter alia, in the following cases:

(a) Together with the United Nations Children's Fund (UNICEF), UNIDO developed a programme to assist the cereal-processing industry in Bosnia and Herzegovina, with special emphasis on issues related to food quality;

(b) Action-oriented research is carried out jointly with UNCTAD to assess the implications for developing countries of the Uruguay Round agreements;

(c) Together with FAO, and with the envisaged future involvement of the International Trade Centre (UNCTAD/WTO), UNIDO has initiated the development of integrated programmes for sustainable wood product manufacturing in Ecuador, Ghana and Nicaragua. The technical cooperation projects resulting from that initiative will involve FAO in forest management and UNIDO in wood-processing activities;

(d) In Sierra Leone, UNIDO is involved as subcontractor in a larger International Trade Centre project on investment and export development, with UNIDO implementing the investment promotion component;

(e) UNIDO has become a member of the United Nations Children's Vaccine Initiative of the World Health Organization (WHO). The World Bank, UNDP, UNICEF and the Rockefeller Foundation are founding members. In close cooperation with WHO and financed by UNDP, UNIDO will hold a series of workshops in 1996 on industry-related health issues focusing on vaccine production management and quality assurance and control;

(f) UNIDO, together with FAO and OECD, has now joined as a member the Inter-organizational Programme for the Sound Management of Chemicals, which has been called upon by the Intergovernmental Forum on Chemical Safety to prepare an inventory on activities related to chemical safety. UNIDO is actively participating in that work, with a portfolio of 20 ongoing projects in that field;

(g) In the context of providing industrial inputs into health programmes, UNIDO cooperates with WHO, the World Bank and UNICEF in assisting China in its programme to control and eliminate iodine deficiency disorders;

(h) Within a larger technical cooperation project of the International Atomic Energy Agency on the development of an advanced flue gas clean-up process in Poland, UNIDO is responsible for undertaking project management for engineering design.

80. Finally, as part of the further focusing of its work, UNIDO has discontinued some of its activities for which other agencies are considered to have a comparative advantage, such as large-scale environmental monitoring systems and environmental legislation (being closer to the work of the World Meteorological Organization and UNEP, respectively) and investment codes and legislation (given the strong involvement in that area of the World Bank and UNCTAD).

Notes

1/ Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992, vol. I, Resolutions Adopted by the Conference (United Nations publication, Sales No. E.93.I.8 and corrigendum), chap. I, resolution 1, annex II.

2/ Report of the Fourth World Conference on Women, Beijing, 4-15 September 1995 (A/CONF.177/20), chap. I, resolution 1, annex II.

3/ Report of the Second United Nations Conference on Human Settlements (Habitat II), Istanbul, 3-14 June 1996 (A/CONF.165/14), chap. I, resolution 1, annex II.